Published by the W. P. Carey School of Business at Arizona State University

1ST QUARTER 2005

CONSENSUS ECONOMIC FORECAST

MÉXICO

W. P. CAREY SCHOOL of BUSINESS

Consenso de Pronósticos Económicos

Bank One Economic Outlook Center • L. William Seidman Research Institute

ASU ARIZONA STATE UNIVERSITY

Modest growth frames economic picture for 2005

CONTRIBUTORS

American Chamber Mexico
Dr. Deborah L. Riner

BANAMEX
Eduardo Gonzalez
Arturo Vieyra Fernandez

BANCOMER
Fernando Gonzales Cantú
Octavio R. Gutierrez

Center for Economic Forecasting of Mexico
Dr. J. Alfredo Coutiño

Grupo Financiero INVERLAT
Francisco Gutiérrez Guzmán

Latin Source Mexico
Dr. Jesús Reyes Heroles
Ernesto Cervera
Lorena Dominguez

This year's economic prospects look very similar to last year's — good, all things considered. The economy should grow around 4 percent, a slightly lower rate than in 2004, which has been the banner year of this sexenio. As they did last year, consumption, investment and exports will contribute to growth in 2005 — although all will grow less rapidly than in 2004. A slower growth rate in the United States will reduce exports' contribution to growth. Investment won't grow as rapidly as in 2004 because of the general sense that further institutional and structural reforms will have to wait until the next sexenio and the accompanying political uncertainty and its impact on the economy. Consumption will be the least affected, but weak job creation, low real (discounting inflation) wage increases, household debt levels and rising interest rates will have an impact. Inflation will drop below 4 percent, a definite improvement over 2004's 5.2 percent rate. Interest rates will rise gradually throughout the year; the government's cost of one-month funding will average more than two percentage points over 2004's 6.8 percent. The peso will end the year 6 to 7 percent weaker than it closed 2004, a contrast to 2004 when the peso appreciated minimally year-end to year-end; however, the average exchange rate will depreciate less in 2005 than in 2004.

The big change in 2005 will be in the balance of payments: the trade and current account deficits will widen significantly and direct foreign investment will diminish. The expansion of the trade account deficit and, consequently, the current account deficit will be the result of lower oil prices and a wider gap between the growth rates of imports of intermediate goods and exports of manufactured goods. As large as the numbers look, the current account deficit should be 2 percent of GDP, generally considered a "safe" level, one that should be able to be financed without difficulty. Foreign direct investment (FDI), which was nearly twice the size of the current account deficit in 2004, will be about a third lower than last year unless there is another multi-billion dollar purchase akin to the Spanish bank BBVA's completion of its acquisition of Bancomer, in which case, FDI would only be about 10 percent less. Even with the drop, FDI should still finance about three-quarters of this year's projected current account deficit, an enviable state.

The first half of the year should be quite pleasant. Even though "margin squeeze" won't go away, it's less difficult to confront when sales are rising. The prospects for the second half of 2005 aren't as clear: that's when the "political effect" will weigh in. It's no secret that the race for the presidency long since began and that it will dominate politics this year and in the first half of 2006. The second half of 2006 will be picking up and putting together the pieces of the election results.

Will the markets and the real economy essentially ignore the political to-ing and fro-ing as they did in 2004? Or, will the financial markets and business peoples' decisions be shaped by the dynamics of the race for the presidency? Those answers will shape 2006. Meanwhile, enjoy 2005!

— Dr. Deborah L. Riner
Chief Economist
American Chamber of Commerce Mexico

2005 MEXICO CONSENSUS ECONOMIC FORECAST

	Annual Percent Change 2005 from 2004							Annual Average	
	GDP 1993 Peso	Private Con-sumption	Government Con-sumption	Total Invest-ment	Exports	Imports	Consumer Price Index	Exchange Rate	CETES 28 Day
AMERICAN CHAMBER	4.2	3.7	2.4	3.8	4.7	7.9	3.9	11.550	9.2
BANAMEX	4.0	4.6	2.0	6.5	7.7	9.7	3.8	11.330	6.8
BANCOMER	3.8	4.1	5.2	5.6	4.5	7.1	3.7	11.800	7.1
CENTER FOR ECONOMIC FORECASTING OF MEXICO	3.5	4.0	0.5	6.5	7.3	7.4	3.5	11.550	9.3
GRUPO FINANCIERO INVERLAT	4.1	4.6	1.8	4.3	6.4	7.5	4.0	11.630	9.3
LATIN SOURCE MEXICO	3.8	3.7	4.6	3.6	10.5	10.1	4.4	11.560	8.5
CONSENSUS — THIS QUARTER	**3.9**	**4.1**	**2.8**	**5.1**	**6.9**	**8.3**	**3.9**	**11.570**	**8.4**
— LAST QUARTER	**3.9**	**4.1**	**3.5**	**5.3**	**5.7**	**7.3**	**4.2**	**11.800**	**8.3**

2006 MEXICO CONSENSUS ECONOMIC FORECAST

	Annual Percent Change 2006 from 2005							Annual Average	
	GDP 1993 Peso	Private Con-sumption	Government Con-sumption	Total Invest-ment	Exports	Imports	Consumer Price Index	Exchange Rate	CETES 28 Day
AMERICAN CHAMBER	3.5	4.0	2.9	1.1	5.0	6.8	4.9	12.710	10.5
BANAMEX	3.3	3.9	1.7	4.7	5.7	7.8	3.7	12.020	9.1
BANCOMER									
CENTER FOR ECONOMIC FORECASTING OF MEXICO	4.5	5.1	3.5	4.5	8.5	9.2	3.3	11.850	9.2
GRUPO FINANCIERO INVERLAT	3.7	4.3	3.1	7.7	4.7	9.7	4.1	12.170	9.7
LATIN SOURCE MEXICO	3.7	3.6	3.2	4.3			3.6	11.770	6.4
CONSENSUS — THIS QUARTER	3.7	4.2	2.9	4.5	6.0	8.4	3.9	12.104	9.0
— LAST QUARTER									

HISTORICAL DATA

Source: INEGI	GDP – 1993 Pesos (billions)	Private Consumption 1993 Pesos (billions)	Government Consumption 1993 Pesos (billions)	Total Investment 1993 Pesos (billions)	Exports (Trade Bal.) US Dollars (millions)	Imports (Trade Bal.) US Dollars (millions)	Consumer Price Index June 02=100 Dec./Dec.	Exchange Rate Pesos/Dollars (annual av.)	CETES 28 Day (annual av.)
2004	1,709.8	1,257.2*	164.0*	349.4*	174.3*	183.0*	112.6	11.361	8.5
Percent Change	4.4%	4.1%	3.5%	5.3%	5.7%	7.3%	4.2%	4.2%	36.5%
2003	1,638.3	1,207.7	158.5	331.8	164.9	170.6	107.0	10.906	6.23
Percent Change	1.4%	3.2%	2.5%	-8.1%	2.6%	1.1%	4.0%	11.3%	-12.1%
2002	1,615.6	1,170.3	154.6	361.1	160.8	168.7	102.9	9.803	7.09
Percent Change	0.8%	1.1%	0.1%	-0.9%	1.5%	0.2%	5.7%	4.6%	-37.3%
2001	1,602.3	1,157.0	154.4	364.3	158.4	168.4	97.4	9.371	11.31
Percent Change	-0.2%	2.1%	-2.0%	-3.8%	-4.8%	-3.5%	4.4%	-1.7%	-25.8%
2000	1,604.8	1,133.3	157.5	378.7	166.5	174.5	93.2	9.535	15.24
Percent Change	6.6%	7.6%	2.4%	11.4%	22.0%	22.9%	9.0%	-1.0%	-28.8%
1999	1,505.4	1,053.5	153.8	339.9	136.4	142.0	85.6	9.630	21.41
Percent Change	3.9%	3.9%	4.7%	4.0%	16.1%	13.2%	12.3%	3.6%	-13.5%

* Consensus

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México Consenso de Pronósticos Económicos, a quarterly publication of the Bank One Economic Outlook Center in the L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University is published on the World Wide Web and is accessed at: **http://www.wpcarey.asu.edu/mexico**. A printed version is available is $20.00 per year (4 issues) or $5.00 per issue. Contact the Bank One Economic Outlook Center, P.O. Box 874011, Arizona State University, Tempe, AZ 85287-4011, USA. (480) 965-5543 or (800) 448-0432.

Publisher: Robert Mittelstaedt • Executive Editor: Robert J. Eggert, Sr. • Editor: Lee R. McPheters

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